



Order 2004-3-18  
Served: March 17, 2004

**UNITED STATES OF AMERICA  
DEPARTMENT OF TRANSPORTATION  
OFFICE OF THE SECRETARY  
WASHINGTON, D.C.**

Issued by the Department of Transportation  
On the 17<sup>th</sup> day of March, 2004

Essential Air Service at

**ADAK,  
ATKA, AND  
NIKOLSKI, ALASKA**

**DOCKET OST-2000-8556  
DOCKET OST-1995-363**

Under 49 U.S.C. 41731 *et seq.*

**ORDER REQUESTING PROPOSALS**

**Summary**

By this order, the Department is requesting proposals from carriers interested in providing essential air service (EAS) at Adak, Atka, and Nikolski, Alaska, for a new two-year period, with or without subsidy. The order reflects new, streamlined procedures for processing such proposals.

**Background**

By Order 2002-4-12, April 17, 2002, the Department re-selected Peninsula Airways, Inc, to provide subsidized essential air service at Atka and Nikolski, Alaska, through March 31, 2004. At Atka, Peninsula Airways was selected to provide four nonstop round trips a week with 9-seat Grumman Goose or Piper T-1040 aircraft to Dutch Harbor. At Nikolski, Peninsula was selected to provide three nonstop round trips a week with 9-seat Grumman Goose or Piper T-1040 aircraft to Dutch Harbor. Peninsula receives \$255,221 annual subsidy for its Atka service, and \$85,538 for its service to Nikolski. EAS for Atka was defined by Order 91-1-21 as requiring one round trip a week with up to two intermediate stops to Adak, Dutch Harbor, or Cold Bay, with small (10-seat or fewer) aircraft. EAS for Nikolski was defined by Order 87-11-14 to required one scheduled and one flagstop round trip a week to either Dutch Harbor or Cold Bay with small aircraft and up to two intermediate stops. We have consistently subsidized more service to Atka and Nikolski than the EAS guarantee to reflect the need to accommodate all the traffic—passengers, freight, and mail—and the directional imbalance of mail and freight.<sup>1</sup>

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<sup>1</sup> Without the directional imbalance of mail and freight, it does not appear that subsidy support would be required.

By Order 2003-1-8, January 3, 2003, the Department selected Alaska Airlines to provide two one-stop round trips per week between Adak and Anchorage with Boeing 737-200 aircraft through April 30, 2004, with annual subsidy at \$1,647,026. EAS for Adak was determined by Order 80-1-167 as five round trips per week during the peak and four during the off-peak to Anchorage, 1,192 miles distant, with up to two intermediate stops and 60-seat or larger aircraft. With the closing of the naval base at Adak, that level of service was no longer required. Order 2003-1-8 selected Alaska Airlines over the substantially less expensive proposals of Peninsula Airways,<sup>2</sup> and expressed concern over the high subsidy rate.

[T]he Department has traditionally given even greater weight to desires of Alaska communities, given the state's greater dependence on air service. Clearly, no community currently relying on subsidized air service is as isolated and dependent on air service as Adak. ... However, given the very substantial level of subsidy required to support this service, if traffic does not respond or the level of subsidy support needed does not decline, we will review the issue towards the end of the one-year contract period.

### **Request for Proposals**

Under normal procedures when nearing the end of a subsidy rate term, absent any expected interest from carriers other than the incumbent, we have negotiated a new subsidy rate with the incumbent and issued an order tentatively reselecting it for a new rate term at the agreed rate, while directing other parties to show cause why we should not finalize our tentative decision. Other carriers wishing to submit competing proposals are invited to do so in response to the show-cause order. If any such proposals are filed, we process them as a competitive case.

In this instance, however, we expect that other carriers will be interested in providing service at Adak, Atka, and Nikolski. In order to give the communities and ourselves a full array of service/subsidy options for consideration, we have decided to forgo negotiating new rates with Peninsula Airways (for Atka and Nikolski) and Alaska Airlines (for Adak) at this time and instead proceed directly to a competitive carrier-selection case by requesting proposals from all interested carriers, including the incumbents.

Carriers interested in filing proposals, with or without subsidy requests, must file them within 30 days of the date of service of this order. At the end of that period, our staff will docket the proposals, thereby making them public, and direct each carrier to serve a copy of its proposal on the civic parties and other applicants. Shortly afterwards, we will provide a summary of the proposals to the communities and ask them to submit their final comments. We urge the communities to rank their preferences for the various options. We will give full consideration to all proposals that are timely filed.<sup>3</sup>

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<sup>2</sup> Peninsula proposed to provide Adak with three one-stop round trips a week to Anchorage with 30-seat Saab 340 turboprop aircraft for \$849,931 annual subsidy.

<sup>3</sup> In cases where a carrier proposes to provide essential air service without subsidy and we determine that service can be reliably provided without such compensation, we do not proceed with the carrier-selection case. Instead, we simply rely on that carrier's subsidy-free service as proposed.

## New Procedures

The preceding paragraph reflects streamlined carrier-selection procedures that we have introduced for the essential air service program generally. In the past, we have accepted *initial* carrier proposals, reviewed them, and then negotiated *final* proposals with each applicant before formally presenting the proposals to the communities and asking for their final comments. We had found that a two-step process was generally necessary because, in most cases, the incumbent carrier was the only one interested. As a result, we were unable to rely on competition to discipline carrier subsidy requests, and the communities had to wait on a protracted selection process. More recently, however, we have noticed that most orders requesting essential air service have drawn proposals from at least two carriers, and sometimes more. Under the circumstances, we expect that competition among multiple carriers will ensure reasonable subsidy requests, obviate the need for rate negotiations, and allow us to streamline the carrier selection process.

Consequently, interested carriers should prepare their proposals with every expectation that their initial proposals will also be their *final* and *only* proposals.<sup>4</sup> We retain the discretion to further negotiate proposals with carriers when we deem it desirable; in such cases, of course, we would give all applications the same opportunity. For example, we anticipate that we will continue to negotiate rates in cases if there is only a single interested carrier. We also retain the discretion to reject outright all unreasonable or unrealistic proposals and resolicit a new round of proposals. However, we anticipate that negotiation or rejection will remain only occasional exceptions to the rule.

We are hereby providing interested carriers with some basic information to serve as guidance when they prepare their proposals, but we will not prescribe a precise format for their proposals. We expect proposals to adequately describe the service being proposed and the annual amount of subsidy being requested. The applicants can make their own judgments as to the level of detail they wish to present; however, they might want to include proposed schedules as well as supporting data for their subsidy requests, such as projected block hours, revenues and expenses. Carriers' proposals must specify weekly service frequency, intermediate stops (if any), aircraft type, and level of annual subsidy. We strongly encourage clear, well-documented proposals that will facilitate their evaluation by the affected community and the Department. We do not anticipate any change in our selection criteria, or in the general provisions governing subsidy payments for essential air service.<sup>5</sup>

We encourage proposals that meet the needs of the communities in an efficient manner. Carriers are also welcome to propose more than one service option, if they choose, and they need not limit themselves in any way if they envision other, potentially more

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<sup>4</sup> For this reason, we will allow carriers 30 days to submit their proposals, rather than just 20 as in the past. Also, it is incumbent on each carrier to discuss with the communities its preferences before it submits its proposals.

<sup>5</sup> In selecting a carrier to provide subsidized essential air service, 49 U.S.C. 41733(c)(1) directs us to consider four factors: (1) service reliability; (2) contractual and marketing arrangements with a larger carrier at the hub; (3) interline arrangements with a larger carrier at the hub; and (4) community views. In addition, we have always given weight to the applicants' relative subsidy requirements. Appendix C contains the general provisions governing essential air service; as in the past, these provisions will be included in the selection order as part of the Department's authorization of subsidy for the selected service.

attractive service possibilities -- different hubs or smaller aircraft, for example -- with subsidy requirements that remain competitive.

### **Service and Traffic History**

Alaska Airlines has provided service to Adak for close to one year, after it replaced Evergreen International Airlines and Peninsula Airways. Appendix B, Page 1 of 2, shows historical traffic at Adak for the year ended December 31, 2003, the most recent 12-month period for which traffic data are available. Carrier proposals should be able to accommodate this historical level of traffic at reasonable load factors, including the directional imbalance of mail and freight.

Peninsula Airways has provided service to Atka and Nikolski for a number of years. Appendix B, Page 2 of 2, shows Peninsula's traffic at those communities for the year ended December 31, 2003, the most recent 12-month period for which traffic data are available. Carrier proposals should be able to accommodate this historical level of traffic at reasonable load factors, including the directional imbalance of mail and freight.

### **Other Carrier Requirements**

The Department is responsible for implementing various Federal statutes governing lobbying activities, drug-free workplaces, and nondiscrimination.<sup>6</sup> Consequently, all carriers receiving Federal subsidy for essential air service must certify that they are in compliance with Department regulations regarding drug-free workplaces and nondiscrimination, and those carriers whose subsidies exceed \$100,000 over the life of the rate term must also certify that they are in compliance with the regulations governing lobbying activities. Because the Department is prohibited from paying subsidy to carriers that do not submit these documents, all carriers that plan to submit proposals involving subsidy should be aware that the selected carrier will be required to complete the required certifications. Interested carriers requiring more detailed information regarding these requirements should contact the Office of Aviation Analysis at (202) 366-1053.<sup>7</sup>

### **Communities and State Comments**

The communities and state are welcome to submit comments at any time. We encourage prospective applicants to contact the communities before they submit their proposals because their proposals are final. As noted earlier, we will provide a copy of the proposals to the civic parties and ask them to submit their final comments shortly after the end of the 30-day period for carrier proposals.

This order is issued under authority delegated in 49 CFR 1.56a(f).

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<sup>6</sup> The regulations applicable to these areas are: (1) 49 CFR Part 20 -- New restrictions on lobbying; (2) 49 CFR Part 21 -- Nondiscrimination in federally-assisted programs of the Department of Transportation -- Effectuation of title VI of the Civil Rights Act of 1964; 49 CFR Part 27 -- Nondiscrimination on the basis of disability in programs and activities receiving or benefiting from Federal financial assistance; and 14 CFR Part 382 -- Nondiscrimination on the basis of disability in air travel; and (3) 49 CFR Part 29 -- Government-wide debarment and suspension (non-procurement) and government-wide requirements for drug-free workplace (grants).

<sup>7</sup> The certifications are also available on the web at <http://ostpxweb.dot.gov/aviation/index.html>.

**ACCORDINGLY,**

1. We request that carriers interested in providing essential air service at Adak, Atka, and Nikolski, Alaska, submit their proposals, with or without subsidy requests, no later than 30 days after the date of service of this order. The proposals should be sent to the EAS & Domestic Analysis Division, X-53, Office of Aviation Analysis, Room 6401, Department of Transportation, 400 7th Street S.W., Washington, DC 20590, with the title "Proposal to Provide Essential Air Service at Adak, Atka, and Nikolski, Alaska, Dockets 363 and 8556;<sup>8</sup>

2. These dockets will remain open until further order of the Department; and

3. We will serve copies of this order on the Alaska Department of Transportation, the communities of Adak, Atka, and Nikolski, Peninsula Airways, Inc., Alaska Airlines, Inc., and the parties shown in Appendix D.

By:

**KARAN K. BHATIA**

Assistant Secretary for Aviation  
and International Affairs, X-1

(SEAL)

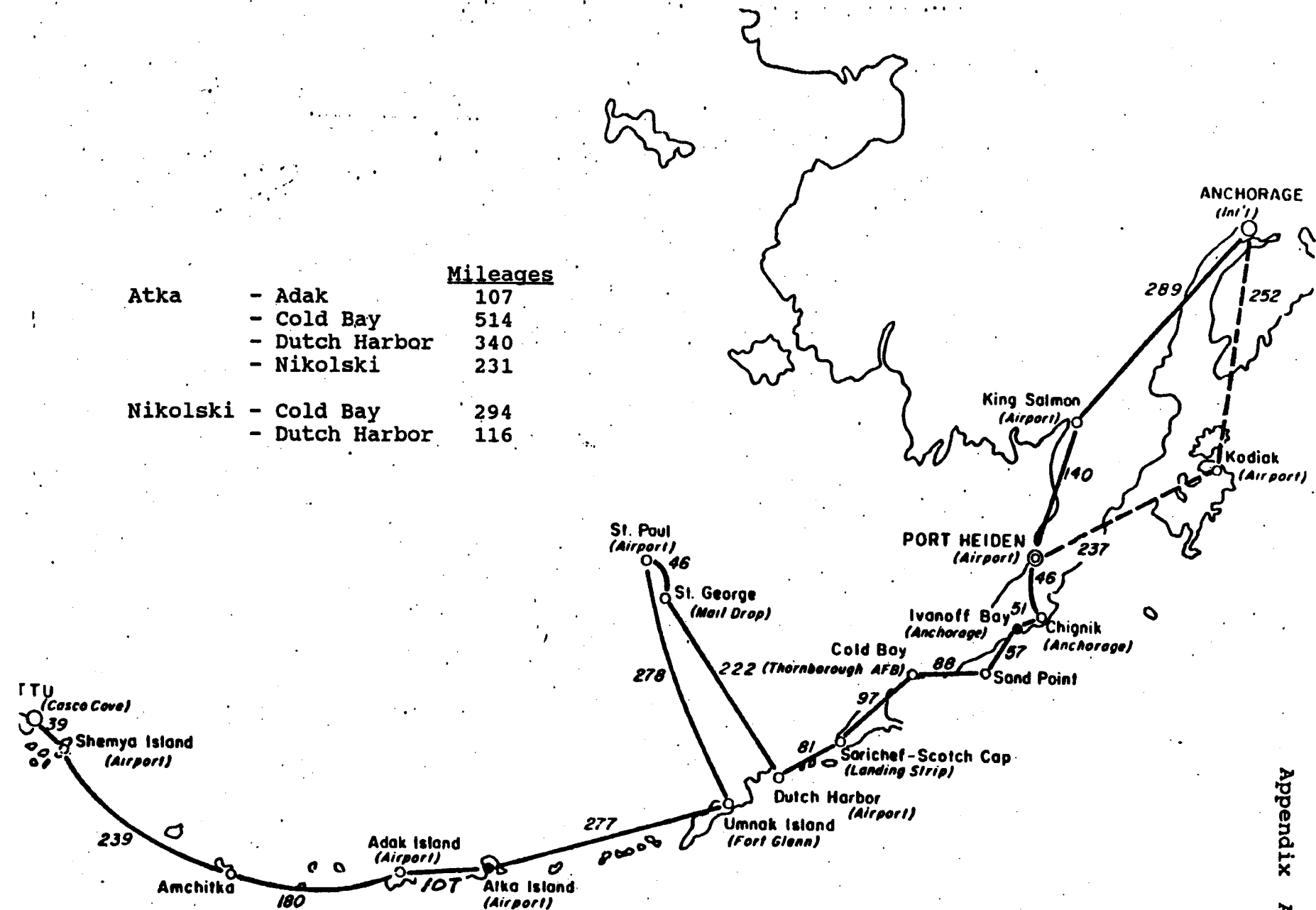
*An electronic version of this document is available  
on the World Wide Web at <http://dms.dot.gov>*

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<sup>8</sup> Questions regarding filings in response to this order may be directed to Kevin Adams at (202) 366-1047.

# Atka and Umnak Island (Nikolski), Alaska

		<u>Mileages</u>
Atka	- Adak	107
	- Cold Bay	514
	- Dutch Harbor	340
	- Nikolski	231
Nikolski	- Cold Bay	294
	- Dutch Harbor	116



## Enplanements by Alaska Airlines

<u>Month</u>	<u>Pax.</u>	<u>Frt.</u>	<u>Mail</u>
January	0	0	0
February	0	0	0
March	0	0	0
April	150	2,208	2,506
May	81	8,072	1,659
June	89	17,061	2,713
July	100	2,619	5,015
August	140	2,292	2,294
September	126	4,968	1,003
October	135	8,091	2,169
November	92	7,015	4,291
<u>December</u>	<u>67</u>	<u>2,424</u>	<u>1,535</u>
Total	980	54,750	23,185

## Enplanements by Peninsula

<u>Pax.</u>	<u>Frt.</u>	<u>Mail</u>
30	193	2,465
43	77	692
127	551	1,007
46	89	144
2	0	0
0	0	0
0	0	0
9	0	0
1	0	0
0	0	0
0	0	0
<u>0</u>	<u>0</u>	<u>0</u>
258	910	4,308

## Total Enplanements

<u>Pax.</u>	<u>Frt.</u>	<u>Mail</u>	<u>Total</u> <u>PEQs</u>
30	193	2,465	42.5
43	77	692	46.7
127	551	1,007	132.7
196	2,297	2,650	210.2
83	8,072	1,659	91.7
89	17,061	2,713	103.0
100	2,619	5,015	125.6
149	2,292	2,294	161.2
127	4,968	1,003	132.7
135	8,091	2,169	146.5
92	7,015	4,291	113.9
<u>67</u>	<u>2,424</u>	<u>1,535</u>	<u>75.0</u>
1,238	55,660	27,493	1,381.7

## Deplanements by Alaska Airlines

<u>Month</u>	<u>Pax.</u>	<u>Frt.</u>	<u>Mail</u>
January	0	0	0
February	0	0	0
March	0	0	0
April	99	18,572	14,095
May	81	28,597	6,917
June	99	13,377	17,427
July	103	9,434	9,395
August	121	23,206	26,125
September	130	18,188	18,178
October	118	13,633	16,129
November	72	10,753	16,580
<u>December</u>	<u>60</u>	<u>11,323</u>	<u>18,582</u>
Total	883	147,083	143,428

## Deplanements by Peninsula

<u>Pax.</u>	<u>Frt.</u>	<u>Mail</u>
83	681	7,695
100	2,006	4,931
116	2,619	7,853
26	332	2,639
0	0	0
0	0	0
0	0	0
4	0	0
1	0	0
0	0	0
0	0	0
<u>0</u>	<u>0</u>	<u>0</u>
330	5,638	23,118

## Total Deplanements

<u>Pax.</u>	<u>Frt.</u>	<u>Mail</u>	<u>Total</u> <u>PEQs</u>
83	681	7,695	121.9
100	2,006	4,931	125.2
116	2,619	7,853	155.8
125	18,904	16,734	209.3
81	28,597	6,917	116.0
99	13,377	17,427	186.6
103	9,434	9,395	150.5
125	23,206	26,125	256.3
131	18,188	18,178	222.5
118	13,633	16,129	199.2
72	10,753	16,580	155.3
<u>60</u>	<u>11,323</u>	<u>18,582</u>	<u>153.2</u>
1,213	152,721	166,546	2,051.8

PEQs = Passenger Equivalents  
200 lbs. of mail/freight = 1 PEQ

Enplanements by Alaska Airlines				Enplanements by Peninsula			Total Enplanements			Total
<u>Month</u>	<u>Pax.</u>	<u>Frt.</u>	<u>Mail</u>	<u>Pax.</u>	<u>Frt.</u>	<u>Mail</u>	<u>Pax.</u>	<u>Frt.</u>	<u>Mail</u>	<u>PEQs</u>
January	0	0	0	30	193	2,465	30	193	2,465	42.5
February	0	0	0	43	77	692	43	77	692	46.7
March	0	0	0	127	551	1,007	127	551	1,007	132.7
April	150	2,208	2,506	46	89	144	196	2,297	2,650	210.2
May	81	8,072	1,659	2	0	0	83	8,072	1,659	91.7
June	89	17,061	2,713	0	0	0	89	17,061	2,713	103.0
July	100	2,619	5,015	0	0	0	100	2,619	5,015	125.6
August	140	2,292	2,294	9	0	0	149	2,292	2,294	161.2
September	126	4,968	1,003	1	0	0	127	4,968	1,003	132.7
October	135	8,091	2,169	0	0	0	135	8,091	2,169	146.5
November	92	7,015	4,291	0	0	0	92	7,015	4,291	113.9
<u>December</u>	<u>67</u>	<u>2,424</u>	<u>1,535</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>67</u>	<u>2,424</u>	<u>1,535</u>	<u>75.0</u>
Total	980	54,750	23,185	258	910	4,308	1,238	55,660	27,493	1,381.7

Deplanements by Alaska Airlines				Deplanements by Peninsula			Total Deplanements			Total
<u>Month</u>	<u>Pax.</u>	<u>Frt.</u>	<u>Mail</u>	<u>Pax.</u>	<u>Frt.</u>	<u>Mail</u>	<u>Pax.</u>	<u>Frt.</u>	<u>Mail</u>	<u>PEQs</u>
January	0	0	0	83	681	7,695	83	681	7,695	121.9
February	0	0	0	100	2,006	4,931	100	2,006	4,931	125.2
March	0	0	0	116	2,619	7,853	116	2,619	7,853	155.8
April	99	18,572	14,095	26	332	2,639	125	18,904	16,734	209.3
May	81	28,597	6,917	0	0	0	81	28,597	6,917	116.0
June	99	13,377	17,427	0	0	0	99	13,377	17,427	186.6
July	103	9,434	9,395	0	0	0	103	9,434	9,395	150.5
August	121	23,206	26,125	4	0	0	125	23,206	26,125	256.3
September	130	18,188	18,178	1	0	0	131	18,188	18,178	222.5
October	118	13,633	16,129	0	0	0	118	13,633	16,129	199.2
November	72	10,753	16,580	0	0	0	72	10,753	16,580	155.3
<u>December</u>	<u>60</u>	<u>11,323</u>	<u>18,582</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>60</u>	<u>11,323</u>	<u>18,582</u>	<u>153.2</u>
Total	883	147,083	143,428	330	5,638	23,118	1,213	152,721	166,546	2,051.8

PEQs = Passenger Equivalents  
200 lbs. of mail/freight = 1 PEQ



General Terms and Conditions for Essential Air Service

The carrier understands that it may forfeit its compensation for any flights that it does not operate in conformance with the terms and stipulations of the rate order, including the service plans outlined in the order and any other significant elements of the required service, without prior approval. The carrier understands that an aircraft take-off and landing at its scheduled destination constitutes a completed flight; absent an explanation supporting subsidy eligibility for a flight that has not been completed, such as certain weather cancellations, only completed flights are considered eligible for subsidy. In addition, if the carrier does not schedule or operate its flights in full conformance with the order for a significant period, it may jeopardize its entire subsidy claim for the period in question. If the carrier contemplates any such changes beyond the scope of the order during the applicable period of these rates, it must first notify the Office of Aviation Analysis in writing and receive written approval from the Department to be ensured of full compensation. Should circumstances warrant, the Department may locate and select a replacement carrier to provide service on these routes. The carrier must complete all flights that can be safely operated; flights that overfly points for lack of traffic will not be compensated. In determining whether subsidy payment for a deviating flight should be adjusted or disallowed, the Department will consider the extent to which the goals of the program are met and the extent of access to the national air transportation system provided to the communities.

If the Department unilaterally, either partially or completely, terminates or reduces payments for service or changes service requirements at a specific location provided for under this order, then, at the end of the period for which the Department does make payments in the stipulated amounts or at the stipulated service levels, the carrier may cease to provide service to that specific location without regard to any requirement for notice of such cessation. Those adjustments in the levels of subsidy and/or service that are mutually agreed to in writing by the Department and carrier do not constitute a total or partial reduction or cessation of payment.

Subsidy contracts are subject to, and incorporate by reference, relevant statutes and Department regulations, as they may be amended from time to time. However, any such statutes, regulations, or amendments thereto shall not operate to controvert the foregoing paragraph.